Nova Scotia Department of Energy

Annual Accountability Report For The Fiscal Year 2003-2004

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1.0 Accountability Statement

The accountability report of the Department of Energy for the year ended March 31, 2004, is prepared pursuant to the Provincial Finance Act and government policies and guidelines. These authorities require the reporting of outcomes against the Department of Energy business plan information for the fiscal year 2002-03. The reporting of department outcomes necessarily includes estimates, judgments and opinions by department management.

We acknowledge that this accountability report is the responsibility of the Department management. The report is, to the extent possible, a complete and accurate representation of outcomes relative to the goals and priorities set out in the department business plans for the year.

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Minister

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Deputy Minister

2.0 Message from the Minister

I am pleased to submit the Accountability Report for the Nova Scotia Department of Energy for the period 2003 - 2004. This is the second accountability report for the Department of Energy, and the first that represents a full year of operation.

The Department was created in June 2002 to concentrate government's energy expertise in one place. I am proud of the significant progress the Department has made toward the objectives set for it by the Energy Strategy, progress that is demonstrated in this report.

I see many opportunities for Nova Scotia to succeed in the energy sector. I see these opportunities in the resources we're just beginning to discover off our coast. They exist in the coal deposits that have been an economic force for more than 100 years. I see opportunities in the creativity of the scientists, engineers, technologists and business people who are finding new ways to meet North America's energy needs.

Together, we will continue to develop a world-class energy sector in Nova Scotia.

Hon. Cecil P. Clarke
Minister of Energy

2.1 Message from the Deputy Minister

The Department of Energy has completed its first full fiscal year. Now, at less than two years of age, its second accountability report is ready and shows the Department continuing to make notable progress toward its goals.

The broad goals were set out in the Energy Strategy, which helps to inform and guide our business planning each year. This process ensures that we stay true to the high level themes and goals set out by stakeholders through the development of the strategy, while maintaining the flexibility to adapt to a constantly changing energy market.

The Department has a broad mandate that ranges from promoting oil and gas exploration and development and securing benefits for Nova Scotians, to encouraging energy efficiency and ensuring that Nova Scotia has the right energy mix for the future.

Whether it's providing a homeowner with tips to cut energy costs or giving entrepreneur guidance in marketing an innovative product or service, we want to be a Department that delivers results.

This report shows that we are getting results. I am pleased to submit it on behalf of the staff who are making our objectives into realities.

Alison Scott
Deputy Minister of Energy

3.0 Introduction

In 2003-04 the Department of Energy was guided by two documents – the 2003-04 Business Plan and the Nova Scotia Energy Strategy. When the Energy Strategy was released in December 2001, it provided a solid foundation on which to build a stronger, more vibrant energy industry. The strategy is a dynamic document – one that was designed to be strategic, yet flexible as the department meets the challenges and opportunities within the energy industry as it changes and grows. Over the past two years, the strategy has evolved from a stand-alone initiative to a guiding force in establishing short and long-term priorities of the Department of Energy. In the coming years, continued success will depend on the department's ability to respond to changing circumstances while making the most of new opportunities. Each year, the business plan outlines how priorities link to the themes in the Energy Strategy. Thus, this accountability report reflects not only progress made on our business plan, but on the Energy Strategy as well, making the integration of strategy and action complete.

4.0 Department Progress and Accomplishments

4.1 Priority – Completing the work of the Electricity Marketplace Governance Committee (EMGC):

The Committee is responsible for recommending the terms under which the electricity market in Nova Scotia is restructured. The Electricity Marketplace Governance Committee (EMGC) submitted its Final Report to the Minster of Energy in October 2003.

2003-04 Accomplishments

- On November 28, 2003 the Minster of Energy publicly announced that government had accepted all 89 of the EMGC's recommendations. Since that time, the Department of Energy has been working on a proposed

implementation strategy to deal with the near and longer term measures required to implement the EMGC's recommendations.

- In recognition of the fact that a number of the key recommendations will require new electricity legislation/regulations, in March 2004, the Department of Energy retained the services of a qualified consulting firm to assist government with the development of draft electricity legislation.

4.2 Priority – Help to ensure the development of gas distribution in Nova Scotia:

In January 2004, Heritage Gas announced that the province's first commercial and residential customers are now receiving natural gas.

2003-04 Accomplishments

- To encourage the transition to natural gas at the residential and small business levels in Nova Scotia, the Department of Energy coordinated discussions between Heritage Gas and Natural Resources Canada that led to the provision of financial assistance from the Gas Market Development Fund and Natural Resources Canada.
- Effective April 1, 2004, the N.S. Natural Gas Equipment Rebate Program is administered by Heritage Gas and provides a maximum $1,400 per household/business to purchase/lease-to-purchase energy efficient gas-fired appliances with Energy Star ratings. Eligible appliances will include furnaces, boilers, water heaters, and fireplaces. It is projected that 450 installations will qualify in 2004 and 1,050 in 2005. The Program will run from April 1, 2004 until December 31, 2005, unless agreed otherwise by all parties.

4.3 Priority – Identifying challenges and opportunities associated with deep-water development with particular emphasis on deep-water technology:

Nova Scotia's deepwater and ultra-deepwater regions hold the promise of significant discoveries near major North American energy markets. Oil companies have therefore committed to exploration in Nova Scotia's deepwater regions despite the harsh, cold ocean environment and high individual well costs. As global production moves increasingly into deepwater basins, the long-term potential for exporting local deepwater products and services also grows.

2003-04 Accomplishments

- The Department of Energy has been actively developing a body of knowledge on deepwater exploration and production through meetings with deepwater operators, attending industry conferences and in delivering technical presentations at various local, national and international forums on Nova Scotia's deepwater potential and challenges. This will help ensure that the local business community will able to maximize the benefits expected to accrue from deepwater projects.

4.4 Priority - Continue to promote the Province at major oil and gas trade shows:

The offshore oil and gas sector continues to be a worldwide competitive industry in terms of attracting exploration activity and development investment. The Department conducts its promotional activities in a way that helps maximize the economic benefits flowing to Nova Scotians by promoting our resources, our workforce, our businesses, our technology and our competitive edge.

2003-04 Accomplishments

- The Department of Energy is an active participant in local, national and international oil and gas conferences and trade shows. Trade shows and conferences attended in 2003-04 include, the Offshore Technology Conference in Houston, Texas, the American Association of Petroleum

Geologists international conference in Barcelona, Spain, the Deep Offshore Technology Conference in Marseille, France, Offshore Europe in Aberdeen, Scotland, the Canadian Offshore Resources Exhibition (CORE) in Halifax, and trade shows in Calgary, St. John's and Norway. Participation in such events allows us to demonstrate and showcase the investment opportunities that exist in our growing industry.

4.5 Priority - Enhancing local benefits opportunities:

The Energy Department works to improve Nova Scotia's offshore fabrication and supply capacity by ensuring that oil and gas exploration, development and production business opportunities in Nova Scotia are identified and matched with Nova Scotia companies.

2003-04 Accomplishments

- The Department continued to play an important role in monitoring and reporting the commitments made by operating companies in their Benefits Plans submissions and Annual Benefits Reports. The procurement and employment decisions made by operating companies are monitored on a daily basis to ensure that Nova Scotians are provided with "Full and Fair Opportunity" and "First Consideration" to compete in the supply of goods and services and employment.
- The Department has developed an extensive database that allows it to monitor oil and gas procurement contracts, expenditures and content. This allows for a wide range of analysis and research into business, investment and operator procurement decisions. In addition, the Department also updated its database of provincial fabricating capability and capacity. Having this knowledge is key to understanding potential benefits resulting from industry related projects.

4.6 Priority – Ensure the Nova Scotia workforce is positioned to take advantage of employment opportunities in the energy sector:

In order to maximize employment opportunities from offshore activity, Nova Scotians must be properly informed and advised of the projected skills demand areas, and educated and trained in relevant disciplines, so that they are positioned for employment.

2003-04 Accomplishments

- The Department's Energy Training Program for students brought approximately 60 post-secondary students together with 30 employers in the past year, resulting in invaluable on-the-job work experience in the offshore energy sector.
- The Department of Energy provided the Nova Scotia Community College Nautical Institute with $500,000 for the purchase of a dynamic positioning simulator for training offshore workers.
- World-class Process Operator training is taking place at the Nova Scotia Community College and the University College of Cape Breton is also providing opportunities to export our knowledge. These institutions have been working in partnership with ExxonMobil Canada to train oil and gas workers from Angola and Russia. Training infrastructure supplied by the Department of Energy or through agreements negotiated by the department with its industry partners has created world-class training facilities at these institutions.
- Nova Scotia Energy continues to work with Skills Canada – Nova Scotia to provide a series of energy information sessions showcasing trades and technology careers as a viable choice for high school students. In 2003/04, staff actively participated in these sessions and provided a donation of $5,000 toward the costs of providing these events.
- In November 2003, the Department of Energy sponsored the Nova Scotia Petroleum Skills Forum. This event brought together more than sixty key

stakeholders from across industry and various levels of government to discuss key issues facing the sector into the next decade. A summary strategy document arising from the proceedings was drafted by the Department of Energy and released October 1, 2004.

- Beginning in 2001, the Department of Energy sits on the Federal-Provincial Labour Market Information Committee to maintain an awareness of national labour market issues and policy developments. Labour market information is critical for projecting supply and demand trends in particular occupations related to the energy sector.

4.7 Priority – Improve the understanding of energy issues in Nova Scotia:

Nova Scotians need access to practical, reliable information to help them make well-informed choices about the energy they use every day. Information on energy use and development includes climate change, exploration and development of oil and natural gas, electricity and renewable energy.

2003-04 Accomplishments

- The Department of Energy developed a three-year Public Education Plan to improve Nova Scotians understanding of energy issues, give them the tools they need to save money, and to improve the environment and our quality of life.
- The plan includes a number of initiatives covering two themes:
  1) *Our Energy Use* (energy efficiency and conservation, climate change, renewable energy, natural gas distribution, electricity) and;
  2) *Our Energy Opportunities* (economic and career opportunities, skills and training).
- The plan was based on an extensive communications audit and public awareness study. Conducted in August 2003, the survey provided an "Energy Awareness Index" which goes beyond awareness to measure how

well people understand particular energy issues. Nova Scotians overall Energy Awareness Index in 2003 was 50.6 (out of 100%).

- The Public Education Plan includes tools such as videos, direct mail campaign, tours, displays and trade shows, toolkits, and an enhanced web site. It will build upon programs already in place through non-profit groups (Clean Nova Scotia, Ecology Action Centre, etc.), industry, and the federal government.
- In accordance with the plan, the Department launched its first educational video titled *Fueling the Future* in March 2004. This award-winning video takes viewers through all aspects of oil and gas in Nova Scotia. It was sent to junior high and high schools, libraries, and community colleges throughout the province. In addition, an energy efficiency mail-out was sent to 120,000 households in the Halifax and Cape Breton regional municipalities.

4.8 Priority – Presenting the Province's views on the Deep Panuke Project:

In February 2003, EnCana took a 'time out' in progressing it's preliminary Deep Panuke development work citing that it wanted to reexamine the project to consider other ways to develop the field in a way that would improve the project economics. In December 2003, EnCana withdrew its Development Plan and Benefits Plan from the CNSOPB.

2003-04 Accomplishments

- Prior to the announcements by EnCana, the Department of Energy registered as an intervenor for public hearings to be jointly held by the CNSOPB as well as the NEB. In doing so, the Department prepared and submitted a series of formal questions dealing with benefits, the environment, development concepts and resource expectations.
- The Department has reviewed the results of EnCana's most recent carbonate bank wells (Margaree and MarCoh drilled in 2003) with both the CNSOPB as well as EnCana.

- The Department has contracted consulting services to provide policy advice on threshold economic parameters associated with offshore projects such as Deep Panuke. This work is ongoing.

4.9 Priority – Approval of gas distribution construction, tolls and tariffs:

The Utility and Review Board issued a gas distribution franchise to Heritage Gas and a conditional approval to Strait Area Gas. Heritage required subsequent approvals for the installation of pipe, operation of their distribution system, and their tolls and tariffs.

2003-04 Accomplishments

- The Department of Energy participated in the written submission process which lead to the approval of the Heritage gas distribution tariff; worked with other government departments (Justice, DNR, TPW, Tourism and Culture, Environment and Labour) and the UARB to attain approvals for road crossings, access to Crown land and environmental assessments; and, participated as an intervener in the regulatory proceedings governing Heritage Gas' permit to construct a natural gas distribution system and license to operate.

4.10 Priority – Presenting the Province's views on NSPI applications to the NSUARB:

It was anticipated that that the UARB would be convening public hearings on several electricity issues during the course of the 2003-2004 fiscal year. The Department of Energy takes the lead for the Province's intervention during the regulatory proceedings initiated by the UARB.

2003-04 Accomplishments

- The Department of Energy participated as an active intervener on the following NSPI applications/UARB hearings:
    1) NSPI's Generic Rate Design;

2) NSPI's Depreciation Rates, Annually Adjusted Rates (AARs), Real Time Pricing (RTP) and Extra Large Industrial Interruptible Rate (ELIIR);
3) NSPI's Open Access Transmission Tariff (OATT) (only an application filed with the UARB at this time); and,
4) NSPI's Application for New Capacity Addition (47 MW of new capacity at their Tuft's Cove site).

- As an active intervener, the department participated in a number of stakeholder technical conferences, prepared and filed written submissions and participated in the UARB's public hearings.

4.11 Priority – Administration of SOEP Royalty Agreements:

Nova Scotia has royalty agreements with each of the SOEP partners. In order to ensure Nova Scotia's royalty expectations are being met, ongoing administration of these agreements is necessary. The Offshore Heritage Trust Fund (OHTF) was to be established with a portion of the offshore revenues so that Nova Scotians would continue to benefit long term from these non-renewable resources. Legislation was not introduced for the OHTF and therefore, the fund was not established in the 2003/04 fiscal year.

2003-04 Accomplishments

- Audit work continues to progress steadily on the first royalty audit of the Sable Offshore Energy Project.
- Additional resources were allocated to the audit through contract work in 2003/04 and again in 2004/05.

4.12 Priority – Administration of the Nova Scotia Accord back-in rights:

Under the Offshore Accord, the Province has the right to acquire at least 50% of any trunk line built in the offshore area. This would include any trunk line built for the Deep Panuke Project, once the regulatory status of the project has been clarified.

2003-04 Accomplishments

- In late 2002 the Department and EnCana held preliminary discussions on the government's statutory right to exercise it's back-in right for offshore pipelines. This effort followed an independent assessment that the department contracted out which examined the value of the back-in right to the Deep Panuke project.
- In 2003, EnCana took a time out with Deep Panuke preliminary development work and withdrew its development and benefits applications from the CNSOPB. Further discussions with EnCana related to the back-in right will await EnCana's decisions related to the progressing of the Deep Panuke Project.

4.13 Priority - Working with other stakeholders to make the Oil and Gas Regulatory System more efficient and effective:

The federal and provincial regulations governing Nova Scotia's offshore are complex, requiring a tremendous investment of time and resources by oil and gas companies. The Department of Energy provides leadership in an Atlantic-wide effort to make our regulatory process more efficient and effective.

2003-04 Accomplishments

- Through the Atlantic Energy Roundtable, the Nova Scotia Department of Energy helped lead three initiatives:
    1) Organized a Lesson's Learned Workshop in Halifax in June 2003 to establish stakeholder priorities for change based upon experience;
    2) Helped fund the Challenges and Opportunities report and the update of Atlantic Canada Regulatory Roadmap to document stakeholder current regulatory requirements and practices, experiences, and recommendations for change;
    3) Helped to fund an International Benchmarking Study to understand

Atlantic Canada's competitive position with respect to regulation of offshore energy sector.

- The Department supported recommendations to the Atlantic Energy Roundtable II and helped lead the implementation of the Atlantic Energy Roundtable II work plan.
- In order to set the stage for success in 04-05, the Department helped lead a process to develop an MOU on regulatory processes and supported development of recommendations on opportunities to reduce cost of exploration. The department also led a process to improve the regulation of seismic activities in the Atlantic offshore area.
- The Department is an active participant in DFO's Eastern Scotian Shelf Integrated Management (ESSIM) Initiative.
- The Department worked with stakeholders to draft new legislation on offshore occupational health and safety. The province will continue consultations while the governments of Canada and Newfoundland & Labrador continue work on similar bills to ensure that the Atlantic region provides consistent legislation on offshore occupational health and safety.

4.14 Priority – Implementing Nova Scotia's obligations under the national climate change process:

The Energy Department continues to be active as part of the national process to determine burden sharing and provincial obligations following ratification of the Kyoto Protocol. In order to meet those national obligations, the Department continues to implement its Climate Change Strategy. Existing priorities in the Climate Change Strategy include substitutions to lower carbon fuels and a wide variety of energy efficiency measures.

2003-04 Accomplishments

- As the national policy process becomes clearer, Nova Scotia, as chair of the provincial/territorial-working group, continues to participate with the federal

government and other jurisdictions to complete the design of major program elements, including participation in the design of a program of targeted measures to be cost shared by federal/provincial/territorial governments.

- The Department is continuing to implement the New England Governors/ Eastern Canadian Premiers Climate Change Action Plan. This involves a multi-year program to reduce energy consumption in government buildings and a retrofit project for traffic lights on provincial highways resulting in an 85 percent energy savings.
- The Department promotes the use of natural gas to replace oil and electricity for heating in the residential and small commercial/institutional sectors. This results in significant greenhouse gas savings depending on the existing energy source being used. In 2003/04, the Department was developing the Gas Market Development Fund for this purpose and additional funding was negotiated with Natural Resources Canada.

5.0 Financial Results

Department of Energy	2003-2004 Authority ($ million)	2003-2004 Actuals ($ million)
Total Program Expenses - Gross Current	7,614,000	6,431,100
Net Program Expenses - Net of Recoveries	7,614,000	6,377,621
Salaries an Benefits	2,671,400	2,380,800
Funded Staff (FTE's)	41.2	36.9

Notes: Employee vacancies, slower progress nationally on climate change implementation, and Encana deciding not to proceed with their Deep Panuke project accounted for the vast majority of expenditure reductions.

6.0 Performance Measures

6.1 Outcome: Increase discovery of oil and gas resources.
Measure: # of exploration wells drilled offshore Nova Scotia.

This is a measure of the average number of oil and gas exploration wells drilled in Nova Scotia's offshore over a five-year period. Exploration wells are drilled to discover additional oil and gas resources. Development wells are drilled to recover resources already confirmed through exploration. Establishing new reserves will lead to new development projects and will enhance the attractiveness of the offshore area for further exploration and development activities.

The Department's baseline average reported in the 2003/04 Business Plan was 3 exploration wells drilled per year. There were 5 exploration wells commenced in the 2003/04 fiscal year. Of these, 2 wells (Margaree and MarCoh) could be considered successful in terms of encountering gas in significant quantities. A third well, Mariner, encountered gas but was not tested and was subsequently abandoned. The 5 exploration wells drilled for 2003/04 are above the Department's baseline average, however, the Department would have liked more exploration wells drilled in that time period to increase the changes of oil and gas resource discovery. Nevertheless, significant knowledge has been gained regarding the geological structures that comprise our offshore area through the drilling of these exploration wells. This knowledge will assist companies in future exploration drilling that can lead to successful commercial oil and gas discoveries.

Currently, only 2 exploration wells are being drilled in offshore Nova Scotia with a possibility of 1 additional exploration well to be drilled before the end of the 2004/05 fiscal year. The Department's target of 8 wells for the 2004/05 fiscal year is high considering that a large number of exploration licenses reverted back to crown in June 2004. At the time this target of 8 wells was set, it was anticipated that many of the interest holders would extend their licenses and drill additional exploration wells.

The decision to drill exploration wells rests with the offshore rights holder, as long as the Canada-Nova Scotia Offshore Petroleum Board approves their drilling plan. The company's assessment to drill exploration wells in offshore Nova Scotia are subject to their corporate decisions on other investment opportunities, risk assessment, and corporate policies. The decisions of investment in offshore Nova Scotia and the drilling of exploration wells ultimately lie with these companies and not directly with the Department of Energy.

6.2 Outcome: Increase in awareness of energy issues, programs, services and opportunities.

Measure: # of Nova Scotians accessing energy information programs.

Over the long term, an increase in awareness of energy issues, programs, services and opportunities will be measured through the use of the energy awareness index. This is a tool that was developed to gauge Nova Scotians' awareness and understanding of a variety of energy topics.

In 2003, the department conducted a survey to determine baseline awareness index for topics including renewable energy, climate change, offshore activity, electricity, natural gas, and energy training opportunities. An overall energy baseline awareness index of 50 (out of a total score of 100 points) was established.

The department then developed a public awareness campaign to be implemented from 2004-2006. The goal is to increase the overall energy awareness index by 15 points, to 65. In 2006, survey will be repeated to determine if there has been an increase in awareness of energy issues, programs, services and opportunities.

Change in the energy awareness index is not expected within one year, nor is it feasible to repeat the survey annually. Therefore, as indicated in the 2003-04 business plan, the department will report on the number of Nova Scotians accessing energy information.

There were approximately 1.3 million visits to the department web site, and more than 1,000 requests for information, publications, and videos. Over the course of implementing the public awareness plan, the department will continue to track and report on the number of Nova Scotians accessing information by tracking downloads on the new web site, monitoring requests for information on the web, e-mail, and the 1-800 line.

6.3 Outcome: External decisions which reflect Nova Scotia's value.
Measure: % of regulatory decisions reflective of the NS written position.

Nova Scotia is an active intervener before energy regulatory boards such as the National Energy Board (NEB) and the Utility and Review Board (UARB). While the government of Nova Scotia does not control when such hearings occur, it frequently takes an active role as an intervener in these hearings.

The Department of Energy determines if a regulatory decision is reflective of Nova Scotia's written position by whether or not the written judgment or reasons for decision incorporate aspects of our written position or final argument. In 2003-2004, the only hearings were before the UARB. In each case, aspects of the government of Nova Scotia's position were reflected in the outcome.

The Department of Energy participated as an active intervener on the following settlements and applications/UARB hearings in 2003-2004:

- NSPI's Generic Rate Design;
- NSPI's Depreciation Rates, Annually Adjusted Rates (AARs), Real Time Pricing (RTP) and Extra Large Industrial Interruptible Rate (ELIIR);
- NSPI's Open Access Transmission Tariff (OATT) (only an application filed with the UARB at this time); and,
- NSPI's Application for New Capacity Addition (47 MW of new capacity at their Tuft's Cove site).

- Heritage Gas Tariff approved.
- Maritimes and Northeast tolls settlement.

Due to the difficulty in assessing the percentage of regulatory decisions reflective of Nova Scotia's written position, there was no base year data determined or targets set for the 2003/04 fiscal year.

6.4 Outcome: Streamlined regulatory processes.
Measure: Turnaround time on offshore royalty audit functions.

The Department administers the royalty agreements for the Sable Offshore Energy Project. The efficiency of the audit (i.e. enforcement of the royalty agreements) can be measured by the time it takes to thoroughly audit and assess the project royalties.

Depending on the Royalty period being audited and the turnaround time of audit query responses from the interest holders, the completion of an audit can vary from period to period. For the first audit under the Sable Offshore Royalty Agreement, extensive audit work has been required for the reported $3 billion project with a multitude of transactions being audited by the Department of Energy for the first time. Additional resources were allocated to the audit through contract work in 2003/04 and again in 2004/05. The Department plans to issue its first royalty audit report/assessment of the Sable Offshore Energy Project covering the periods from 1995 – 1999 by the end of the 2004/05 fiscal year. The SOEP owners have not expressed any concern regarding the timeliness of the audit and the Department of Energy has continued to obtain the necessary resources to ensure that the royalty audit progresses on a timely basis.

The Department has set a target of completing the audit report/assessment for the Sable Offshore Royalty Project for the periods from 1995 – 1999 by the end of the 2004/05 fiscal year. Due to the difficulty in assessing the turnaround time of royalty audits, no baseline data was determined during the 2003/04 fiscal year.